

Message Text

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ACTION NEA-09

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PASS AGRICULTURE

E. O. 11652: N/A

TAGS: EAGR, IN

SUBJECT: GOI ANNOUNCES WHEAT PROCUREMENT PRICE FOR 1975-76
MARKETING SEASON

SUMMARY: THE CENTRAL GOVERNMENT HAS ESTABLISHED THE WHEAT
PROCUREMENT PRICE FOR THE 1975-76 MARKETING SEASON (APRIL THROUGH
MARCH) AT RS.105 PER 100 KG. THIS WORKS OUT TO RIGHT AROUND
\$3.71 PERBUSHEL BASED ON RECENT EXCHANGE RATES. TO APPEASE
THOSE FAVORING AN INCREASE, PARTICULARLY SPOKESMEN FOR THE
SURPLUS WHEAT-PRODUCING STATES, IT HOLDS OUT PROMISE OF A BONUS
TO PRODUCERS. THE NEW PROCUREMENT AND PRICE POLICY RELEGATES
THE PRIVATE TRADE TO A SECONDARY ROLE IN WHEAT MARKETING
PRINCIPALLY BECAUSE THE PRIVATE TRADE IS BANNED FROM INTER-
STATE TRADING. STATES ARE TO HAVE AUTONOMY TO ESTABLISH THEIR
OWN MODE OF PROCUREMENT. ALL MARKETING WITHIN THE STATES
WILL BE STATE REGULATED AND NO MOVEMENT OUT OF STATE COULD OCCUR
EXCEPT ON CENTRAL GOVERNMENT ACCOUNT. END SUMMARY.

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1. THE MINISTER OF STATE FOR AGRICULTURE, MR. A. P. SHINDE, INFORMED PARLIAMENT MARCH 24 THAT THE RECOMMENDATION OF THE AGRICULTURAL PRICES COMMISSION TO HOLD THE PROCUREMENT PRICE OF WHEAT FOR THE 1975-76 MARKETING SEASON (APRIL-MARCH) AT RS.105 PER 100 KGS. OR \$3.71 PER BUSHEL (7.70 RUPEES PER DOLLAR) HAS BEEN ACCEPTED BY THE CENTRAL GOVERNMENT. HE ADDED, HOWEVER, A SUITABLE BONUS SCHEME FOR PRODUCERS WOULD BE INTRODUCED TO ENCOURAGE AND MAXIMIZE PROCUREMENT. THE SIZE OF THE BONUS HAS NOT BEEN INDICATED BUT THE TOTAL WOULD PROBABLY VARY BY STATES, SINCE BOTH THE CENTRAL AND SOME OF THE STATE GOVERNMENTS PRESUMABLY WOULD SHARE THE COST.

2. RESTRICTIONS WILL BE CONTINUED ON INTERSTATE MOVEMENT OF WHEAT BY TREATING EACH STATE AS A SEPARATE ZONE. NO MOVEMENT OF WHEAT WOULD BE ALLOWED BEYOND STATE BORDERS EXCEPT ON CENTRAL GOVERNMENT ACCOUNT. THE ISSUE PRICE OF WHEAT FOR STOCKS RELEASED FROM THE CENTRAL POOL WILL REMAIN UNCHANGED AT THE PRESENT LEVEL OF RS. 125 PER QUINTAL (100 KG.) (\$4.41 PER BUSHEL).

3. THE MODE OF PROCUREMENT SUCH AS PURCHASES IN REGULATED MARKET AND/OR THROUGH A SYSTEM OF LEVY WILL BE LEFT TO THE STATE GOVERNMENT. THE MARKETING OF WHEAT WITHIN THE STATES WILL BE REGULATED BY THE STATES.

4. THE NEW PROCUREMENT POLICY, WHICH WOULD RELEGATE THE PRIVATE TRADE TO A SECONDARY ROLE IN WHEAT MARKETING, REFLECTS THE DISSATISFACTION OF THE GOVERNMENT WITH THE DECLINE IN PROCUREMENT OF WHEAT TO A SEVEN-YEAR LOW OF 1.9 MILLION TONS DURING THE 1974-75 MARKETING SEASON WHICH IS ASCRIBED OFFICIALLY MAINLY TO THE FAILURE OF THE LEVY ON TRADERS. THE GOVERNMENT FEELS THE SYSTEM LED TO MALPRACTICES ON THE PART OF THE TRADE TO EVADE THE LEVY, AND ENCOURAGED HOARDING OF WHEAT.

COMMENT:

5. THE GOVERNMENT'S DECISION TO KEEP THE PROCUREMENT PRICE AT LAST YEAR'S LEVEL STEMS FROM ITS ANXIETY TO CONTAIN AND STABILIZE THE OVERALL PRICE LEVEL. RAISING THE PROCUREMENT PRICE WOULD HAVE PUSHED UP THE WHOLESALE PRICE INDEX AND ADDED TO INFLATION. THIS WOULD CONTRAJECT THE GOVERNMENT'S POLICY, PURSUED SINCE LIMITED OFFICIAL USE

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LAST JUNE, OF HOLDING THE LINE ON PRICES. A LEVY PRICE FOR WHEAT TO BE DISTRIBUTED THROUGH PUBLIC CHANNELS BELOW THAT WHICH RULES ON THE MARKET IS VIEWED BY SOME GOI OFFICIALS NOT ONLY AS A DIRECT ANTI-INFLATIONARY DEVICE, BUT ALSO AS A SUBSTITUTE FOR POLITICALLY DIFFICULT INCOME TAXATION OF FARMERS. PREDICTABLY, THE WHEAT SURPLUS STATES PUSHED FOR HIGHER PRICES, WHEREAS THE DEFICIT STATES OPPOSED A PRICE HIKE.

5. IN WEIGHING THE FACTORS LEADING TO ITS DECISION, THE GOVERNMENT UNDOUBTEDLY CONCLUDED THAT GIVEN THE PROSPECTS OF A BETTER UPCOMING WHEAT CROP OVER LAST YEAR, AND WITH THE VOLUME OF IMPORT COMMITMENTS IN THE PIPELINE, THERE IS NO IMMEDIATE ECONOMIC OR POLITICAL NEED TO RAISE THE PROCUREMENT PRICE. TOTAL WHEAT ACREAGE IS ESTIMATED TO BE DOWN ONLY SLIGHTLY IN SPITE OF A LESS THAN DESIRABLE PLANTING SEASON LAST FALL FOLLOWING THE POOR SUMMER MONSOON AND IN SPITE OF PREDICTIONS THAT WHEAT FARMERS WOULD SWITCH TO OTHER CROPS WHICH WOULD PROVIDE GREATER RETURNS. ALSO, THE SHARP SURGE IN PRODUCTION COSTS HAD ALREADY OCCURRED WHEN IT CAME TIME TO PLANT THE 1975 WHEAT CROP. SINCE THIS DID NOT APPARENTLY CAUSE MUCH OF A CUTBACK IN ACRES PLANTED, IT SEEMS REASONABLE TO ASSUME THAT WHEAT GROWERS WILL PROBABLY NOT EN MASSE TURN TO GROWING OTHER CROPS, EVEN THOUGH THEY MAY BE DISAPPOINTED OR ANGRY OVER THE GOVERNMENT'S DECISION NOT TO RAISE THE PROCUREMENT PRICE. THE RECEIPT OF A BONUS, UNLESS TOO PICAYUNE (DETAILS NOT YET ANNOUNCED), WOULD ALSO ASSUAGE THE GROWERS' DISAPPOINTMENT.

7. THE COMBINATION OF A NEW PROCUREMENT POLICY AND THE SAME PROCUREMENT PRICE AS PREVAILED DURING THE 1974-75 MARKETING SEASON SHOULD BRING MORE WHEAT INTO GOVERNMENT BINS THAN WAS OBTAINED DURING THE 1974-75 MARKETING SEASON JUST ENDING. THE FACTORS ARE ALL MORE FAVORABLE.

8. THE AGRICULTURAL ATTACHE STAFF IS NOW ENGAGED IN FIELD TRAVEL TO OBTAIN EVALUATION OF PROBABLE CROP OUTTURNS. WEATHER HAS REPORTEDLY BEEN FAVORABLE WITH RAINFALL TIMELY, THEREBY GIVING RISE TO OPTIMISTIC REPORTS OF CROP PROSPECTS, SOME OF WHICH ARE GREATLY EXAGGERATED. IF GOOD CONDITIONS HOLD FOR A FEW MORE WEEKS. THIS SPRING'S WHEAT HARVEST IS ALMOST CERTAIN TO EXCEED THAT OF LAST YEAR. WE ARE CURRENTLY LIMITED OFFICIAL USE

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ESTIMATING THE TOTAL FOODGRAIN HARVEST FOR 1974/75 TO BE IN THE VICINITY OF 100 MILLION TONS. WE WILL REPORT FURTHER IN THIS CONNECTION WHEN DATA AND OBSERVATIONS OBTAINED DURING TRAVEL SCHEDULED THROUGH APRIL 19 ARE ANALYZED. SAXBE

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